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The Basis of Better Times

An Address by

JAMES S. ALEXANDER

President, National Bank of Commerce in New York



**National Bank of Commerce
in New York**

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I am very glad of the opportunity to meet with the National Association of Cotton Manufacturers to discuss business conditions. Your association stands as one of our most important and influential business organizations. It has won this recognition because of the true emphasis it has placed on business fundamentals and because of the importance of its contribution to progress in cotton manufacture, both in the technical aspect of the industry and in that of business administration. The country is fortunate in having in one of its greatest industries organized business leadership such as your association represents.

Never before have the nation and the world been so greatly in need of sound, broad-visioned business leadership. The business outlook continues to hold serious problems that demand our best thought. Already substantial progress has been made toward a return to sounder conditions but the time has not yet come for relaxation of caution. We can say with utmost confidence that so far as the United States is concerned the

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National Association of
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credit and banking situation is well in hand. Our currency is sound. Investment is healthy. The fever of speculation has subsided. We are not in a condition of general over-production. Many aspects of maladjusted business have proceeded far toward readjustment. Were these ordinary times, and if we could consider the United States without reference to the rest of the world, we could say that the foregoing are satisfactory evidences that the worst is over and revival may be looked for.

But there exist factors that make the present period one requiring an unusual degree of prudence, foresight and patience. There are influences of prime importance to our business future that are not under our own control because what happens in Europe now affects so powerfully the course of events in America. The two have become inseparable.

In this connection I do not refer particularly to the volume of our export trade. It could not reasonably have been expected that our foreign trade could be maintained in the volume reached during the past few years. Therefore we are prepared to view with less alarm the great shrinkage in the volume of our trade with Europe. Blind stimulation of foreign trade is not desirable. Stability in trade is desirable. It is stability, not quantity, that spells healthy trade, whether foreign or domestic. We must look beyond our trade figures and have regard to internal conditions in other nations. The picture we see in Europe emphasizes the need of continued caution in America.

In the United States the man who recognizes and adapts himself to conditions as they are, who conducts

his business on conservative lines and is willing to accept moderate profits should, after he is freed of the incubus of former high prices, be reasonably successful. But the business man who is impatient of caution, seeks big profits and takes big risks courts disaster. The weight of chance is against speculative undertakings. These are not times to trifle with.

But just as emphatically, they are not times to be frightened at. There are specific reasons for confidence that business in many of its major aspects has passed the period of most unsatisfactory conditions. The peak of inflation of banking credit was doubtless reached during the seasonal requirements of last autumn. Present prospects contain no cause for anxiety as to the availability of credit in sufficient volume to serve all proper requirements, and at rates which will maintain a constructive money policy.

Notable improvement has also developed in respect to the serious maladjustment between the production and consumption of current goods. This maladjustment was caused by misjudgment as to Europe's continued purchases here, by the sudden retrenchment from extravagance of our own people and by the coming on the markets of unexpectedly large volumes of goods previously withheld for speculation. The sudden and violent changes precipitated by these developments created a serious situation, one of the most menacing aspects of which was the wholesale cancellation of contracts in both our foreign and domestic trade. This resulted in a mass of distressed goods, constituting a problem which still exists, but its most serious phases are probably already known.

Looking more particularly at conditions in the specific trade which you represent, there are some significant elements of betterment. Although the supplies of raw cotton in the United States are today very large, it is a particularly fortunate circumstance from your point of view that the stocks at the mills are well below normal. Manufacturers are therefore in the position of being able to buy their new supplies in an easy market.

Another cause for encouragement is the increased activity that has taken place in the more staple lines of cotton manufacture during recent months. A significant feature is the steadiness in the development of this improvement since the low point was reached last December.

The Cotton Export Trade Situation

It should be recognized, however, that the present export situation for the American cotton manufacturer is not what might be wished. In the period from 1914 down through 1920 exports of cotton goods increased at a more rapid pace than did total production, so that the export trade came to occupy a position of increased importance in relation to domestic trade. But at present our foreign markets are over-stocked with cotton goods which were contracted for at the high price levels of last year. Coincidently the buying power of our chief foreign cotton goods customers in South America, Africa, India and China has suffered because those countries lack markets for their raw products.

In view of these conditions in the export field, our own domestic situation offers the best market for cotton goods. Although conditions here are not satisfactory, particularly in respect to fine fabrics, reports indi-

cate that standard staple goods used by the great mass of people are selling well. The country is not greatly over-stocked with cotton goods, but here, as in the foreign markets, one of the basic aspects of the problem is reduced purchasing power of the public, caused by unemployment, caution in buying and by the decline of prices for raw products. This latter factor has particularly affected farmers and other producers of basic materials. This situation has not yet been met by an equivalent reduction in the prices of products which they, as consumers, buy, so that the cost of living in respect to them has not yet been readjusted.

In this connection cotton manufacturers are to be commended for the courageous way in which they have cut prices. The great declines that have taken place in the wholesale prices of cotton goods have brought the reduction in the price of the great staple necessity, cotton, one step nearer the consumer.

But there are still serious obstacles to the fulfillment of this movement for which the manufacturer is not to blame. The resumption of normal business depends upon the establishment of prices on levels in keeping with a maximum of effective demand. This cannot be accomplished while retailers, particularly the smaller dealers, still refuse to reduce their prices and while the cost of labor resists full readjustment. Retailers must come to see that it is better to have a large turnover at lower prices than to have too low a turnover at prices based on the cost of their goods on hand. Labor also must come to see that it is better to work for lower wages than to insist on high wages and be out of work. Adoption of these principles will bring prices into co-

ordination with the present purchasing power of the general public. Thus would a wholesome stimulus to business be provided. The remedy is not to be found in easier credits or cheaper money, which might serve as an artificial but temporary stimulant, creating a situation worse than the present one.

The Use of Banking Credit

These are some of the significant features of the cotton manufacturing trade as I see it. It is plain that encouraging factors exist, but other important elements tend to retard the establishment of stability. It is essential that bankers and business men see conditions in respect to trade through the same eyes. Their fundamental interests are identical and can be best served on the basis of a common understanding.

The basis on which banking can cooperate with business during this period of readjustment demands careful statement. We must frankly recognize as a matter of principle that where capital has been impaired it cannot be made good by the substitution of banking credit. In other words, credit arrangements must be in keeping with present assets, which as a general proposition means a revision downward.

Also the availability of credit must depend squarely and without equivocation on the individual position of the borrower. No man is entitled to banking credit unless the business ends to which he intends to put it contain in themselves elements insuring his financial ability to repay.

Any other policy than that indicated by these limitations would mean an inflated state of credit and an

unsound banking situation. Any other policy would retard the sound readjustment of business and perpetuate an expansion which cannot and should not be maintained.

It is a fortunate circumstance which should be emphasized that a lower price level makes possible the conduct of business adequately on a contracted base. It will require less money to do business on lower price levels. Also the greater conservatism which characterizes business today, with quicker turnover, and shorter selling terms, lessens the volume of credit required. A heavy drain on credit resources during the past few years was the introduction into the chain of distribution of an unnecessary element of speculative middlemen, who for the most part, served no economic purpose. They have been largely eliminated by rapidly falling commodity prices, but complete elimination of those elements in our economic life which do not serve an efficient purpose is desirable.

In the development of these factors we will progress toward a new normal for doing business. It is a narrow view of the intrinsic character of business that compares it too closely to standards established in other years and attempts to fix a time when we can say that it is in conformity with those standards. When business adequately serves the human needs of the times, it is normal, regardless of how it compares statistically with other times. There are very definite signs that commerce and industry in America are regaining their ability to render more satisfactory service to the nation. Upon our prudence depends the full realization of this movement.

Passing from technical considerations, I would lay emphasis on the human element. Never before in the history of the world has there been such a universal and profound change in human conduct as we have seen in the period since the World War began. Never before has human conduct produced such variations in business away from what we are accustomed to consider a normal course. We are beginning to realize this more fully today, over two years after the termination of the war, than we did as we emerged from the great struggle. Although we knew then that the world had been through an ordeal without precedent in human affairs, and although we realized the great disorganization in industry, business and finance, we did not fully appreciate how great had been the disorganization of the human element in the world's economic life.

It is a question of the personal attitude of man toward his job. Looking at this in a large way, we see nations still struggling and fighting one with another. Within nations we see labor still creating turmoil, while the attitude of employers is not always what it should be. Business stability and a new normal for the conduct of the world's economic life cannot be found while these conditions persist. Human nature has set free great forces which must be brought under control before business can again be on a sound basis.

Too many people today hope and expect something will be done for them, although their interests would best be served by their doing a full day's work for their pay. There is an effort on the part of workers to retain the advantages won during the abnormal war period of shorter hours, higher pay and easy work, regardless of the present lack of an economic basis for the continu-

ance of such conditions. The fundamental principle of enlightened labor leadership today should be to inculcate a return to the doctrine of an honest day's work for an honest day's pay. Inflated wages and the non-competitive conditions of the war and the later boom period produced inefficiency and irresponsibility.

Stabilization of Wages

It is essential to the welfare of labor itself to banish this attitude, not because individual efficiency and a full return of value received in the pay envelope mean bigger profits for the employer, but because they mean better times for the workers themselves. Workers cannot, in the long run, consume more than they produce. If new houses are not built, labor cannot have enough homes to live in; if cloth is not woven, labor cannot have clothes to wear. Such activities can be maintained only if the element of personal efficiency and productivity makes wages occupy the proper ratio in production costs. If wages are too high in relation to the exchange value of the product, wages must come down, for no wage can be permanently maintained at a point above what it is worth measured in terms of other products.

Further, employers must not seek to drive wages below their true value thus measured. There is this reciprocal personal responsibility involved in the relation of workers and employers—on the one hand to render efficient service for every dollar demanded, on the other to render over to labor every dollar earned.

I would refer briefly to another phase of the present situation. Over a long period of years there have grown up accepted standards of commercial conduct that ma-

terially weakened the business structure. Notable among these are customs that made easy a large percentage of the cancellations that characterized the business reaction. The responsibility for this does not rest entirely on the buyer. Usage in many lines of business contemplated that a contract of purchase was not binding if it became inexpedient to keep it. It will materially strengthen the business structure if it becomes the tradition of trade that contracts are made to stand by. A more serious token of moral weakness in our business structure was the cancellation of contracts which constituted an absolute breach of faith; contracts that were binding both in the letter of the bond and in the custom of the trade. Business is seriously retarded today by the unwillingness of manufacturers to accept orders for distant deliveries through fear of cancellations should a further drop in prices come. The temper of business, and the accepted methods of conducting it, should be such that we shall never again witness such a wholesale repudiation of business obligations.

Personal Responsibility in Business

There are elements of personal responsibility in banking relations also that must be maintained on high standards. It is not sufficient for a banker in loaning money merely to consider whether it is going to be safe and profitable for his own bank. Neither is it sufficient to add to this the consideration as to whether it is going to help his customer make a profit. He must consider these things. But he must also consider whether, from the point of view of public interest, it is a good and constructive thing to do. He must consider whether so-

ciety needs that activity or whether the general situation will be better off without it. The times are still too serious for wasted effort, for unproductive enterprise or for irresponsible ventures. It is only through the element of personal contact between banker and business man, only through their mutual recognition of their personal responsibility to society, that the high business needs of the day can be met.

Again, there is personal responsibility in the administrative phases of business. War and post-war conditions did much to deteriorate the personal attitude here. The boom period that characterized the aftermath of the war was one not only of personal extravagance but also of business extravagance. Large profits begot a laxity of methods. War taxes caused a tendency toward carelessness in expense on the theory that a large part of it would come out of the government. Competition for labor made employers willing to accept lower standards of efficiency. These things must be done away with.

The maintenance of personal factors of strength and the correction of elements of weakness in the conduct of business is as important as the maintenance of sound credit, currency, and banking conditions. These corrections cannot come through the study of figures. They must come from building up a higher consciousness of personal responsibilities. There must be a stiffer moral fibre in business.

In addition to elements of weakness, due to the personal attitude in business, we see the nations rendering financial stability impossible by continuing efforts to maintain the military advantages won in the war, or to

evade the just penalties thereof. Never has the moral responsibility of governments been greater. Any government that does not rise to its full obligation to put an end to the dissipation of the world's resources in wasteful preparation for future wars is not discharging its moral responsibility. Any government that countenances privileges to any class as against another class on the ground of social justice undermines the stability of society. Not only in Soviet Russia do we see some of these manifestations of unsettled human nature, but also in some of the more stable nations.

These are some of the threatening signs of the times, but we may feel confident that they represent some of the last phases of the world's difficulties. There are indications that sound government is keeping the upper hand and that Bolshevism will not overthrow the regime of law and order. For us in America a particularly encouraging circumstance is the broad-minded, sound, human and intelligent way in which the present administration is attacking the problems of the day.

The prime test of the future, for men as citizens, and for nations as members of world society will be the ability to conduct the affairs of life on the highest standards of personal and social responsibility.

The Way to Normal Times

I have laid this emphasis on the human aspects of business and on the ethical responsibilities demanded, not to advocate a more rigid moral regime for the world, but because of the sincere conviction that it points to the most practical pathway out of the business and social confusion of the times.

A return of social stability rests upon recognition by both nations and individuals that reconstruction can come only by hard work, that business can endure only on the basis of a sincere discharge of obligations, whether they be in the form of executive duties or in the form of day's labor, and that a high sense of personal responsibility must prevail in all the relations of life.

The most frequently asked question of the day is when we may expect a return of normal business. Forecasts based only on technical business considerations are worth little. The rebirth of normal business awaits a new attitude of man toward his job.



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